



Mitchell Adams, Commissioner
Harry M. Grossman, Acting Deputy Commissioner

CITY & TOWN

A Publication of the Massachusetts Department of Revenue's Division of Local Services

Accountability in School Budgeting

In most communities, education is by far the largest portion of the municipal budget. Massachusetts municipalities spend an average of 45 percent (ranging between 14 and 75 percent) of their total budgets on education. Since the implementation of the Education Reform Act of 1993, both municipal spending on education and state aid distributions for education have risen steadily. Nearly \$1 billion of state aid has fueled increases in school spending. With state and local investments of this magnitude, the need for adequate oversight and accountability increases. Because so many different officials in the municipality and the school department are involved in the school budget process, it is essential that all the participants understand the process itself and their roles in it. To help officials accomplish this objective, we are using this issue of *City & Town* to describe the multi-faceted school budget process and outline the legal duties and responsibilities of the individuals involved in monitoring school department expenditures. We hope that school and municipal officials will use these guidelines to foster a cooperative, coordinated and responsible school budget and oversight process in their communities.

I. The School Budget Process

The school budget process is a major component of a community's budget process. Many of the steps involved are similar — both require planning, developing a budget, reviewing funding and expenditure requests and obtaining final budget approval. Most importantly, a good school budget process, like a

good municipal budget process, is continuous. One cycle overlaps the next cycle, year after year. The school budget is a major policy making tool that clearly identifies the priorities of the school department. It explains not only how much money will be spent on education, but where the money will be used and how it will meet the goals and objectives of the Education Reform Act of 1993.

All public funds must be expended and monitored responsibly.

The first half of *Figure 1* graphically outlines the basic process for developing a school department budget. After reviewing the net school spending requirements mandated by the Education Reform Act and taking into consideration the municipal budget guidelines, the superintendent drafts a budget for the school department. This draft of the budget is then submitted to the school committee for review. After the school committee approves the budget, it is sent to the accountant who submits it to the finance committee. The finance committee reviews it, taking into consideration a municipality's available revenues and current expenditures as allocated in the municipal budget. After the finance committee and school committee negotiate an acceptable level of appropriation, the school budget is incorporated into the municipal budget and presented to town meeting or city council for ap-

proval. The legislative body then votes on the budget and has final say on the level of departmental spending.

The second half of *Figure 1* illustrates the school expenditure process after a budget has been approved. This outline shows a simplified version of the steps involved when expending school department funds. Basically, once a budget is approved by a municipality's legislative body, the superintendent develops a spending plan for the department. The school committee is responsible for approving the spending plan, monitoring overall expenditure levels and approving all expenses as they are incurred. Once they are approved by the superintendent, or the superintendent and the principal, the bills are submitted to the school committee for approval and signature. Then the school committee authorizes the payments of bills and gives them to the accountant. The accountant verifies that the funds are available in the department's appropriation and submits a warrant. As is the case in all municipal departments, the school department cannot incur liabilities that exceed its appropriation.

continued on page two ➡

Inside This Issue

DLS Update

Executive Order 393 7

Municipal Fiscal Calendar. 8

Data Bank Highlight

Trends in School Share of General Fund Spending 8

Job Opportunity 8

Director of Accounts Named 8

Accountability in School Budgeting

➔ *continued from page one*

All local and school officials should note that there are checks and balances that should be in place to help oversee the school department expenditure process. When a contract or purchase order is executed, the individual authorizing the payment should provide a copy of the contract or purchase order to the accountant so that the necessary funds can be encumbered. Another important step is to record all encumbrances and liabilities into a computerized expenditure software system thereby creating a continuous record of the school department's expenditures and liabilities. In addition, the accountant should distribute a monthly report to the school committee and all other school officials who are authorized to expend school funds; this report should specifically include the amounts expended, encumbered and the remaining amounts available for expenditure. The school committee should then compare the accountant's report to its record of expenditures. All differences between the two must be reconciled timely in order to avoid deficits at the close of the year.

II. Statutory Duties and Responsibilities

While the first section of this article addresses the school department's budget and spending processes, the second section describes the specific duties and responsibilities of local and school officials with legal responsibilities for fiscal control and oversight of the school budget.

These duties are outlined in the Massachusetts General Laws, municipal charters, ordinances and by-laws. Specific statutory references are listed at the end of the article. In many cases local charters, ordinances and by-laws provide additional checks and balances and in some circumstances

modify the duties and responsibilities as outlined in the General Laws. Municipal officials should always review their local provisions to determine whether the provisions impact their responsibilities with regard to the school budget.

In the following paragraphs we describe the fiscal responsibilities of a number of school and other municipal officials that have school department spending responsibilities. These officials include the school committee, school superintendent, school business manager, school principals, legislative body, chief executive officer, accountant and treasurer.

School Committee

While school committees are often considered primarily education policy-making entities, the general laws give these committees significant fiscal powers in the school budget process. For example, the school committee has the authority to appoint and terminate the superintendent and to review and approve school budgets. However, while the committee no longer has the general authority to hire, fire and contract with individual employees, it does have specific authority to make contracts with certain employees, including the school business administrator and superintendent. In addition, the school committee negotiates collective bargaining agreements with school employees. For collective bargaining purposes, the chief executive officer is considered a member of the school committee.

The school committee also has the authority "to determine expenditures within the total appropriations" of the school department operating budget. However, the school committee's autonomy does not extend to capital and transportation costs, unless the municipality aggregates these amounts into

the total school operating budget. Overall, a municipality can limit the total appropriation but the school committee has the authority to determine how the funds are spent within its overall budget. The executive officer and legislative body may make line item recommendations but they are not binding on the school committee. As head of the school department, a majority of the school committee is required to approve all bills, but the committee may designate a single member to sign the payrolls. While state statutes require these committees to provide certain services (e.g., special education, transportation, etc.), the law does not authorize school committees to incur expenditures in excess of appropriations when providing these services. The school committee has ultimate responsibility for controlling expenditures and operating within the school department's budget.

School Superintendent

The Education Reform Act of 1993 expanded the powers and responsibilities of school superintendents, who are traditionally the top administrators of school districts. The superintendent is now authorized to appoint principals as well as administrators and personnel not assigned to specific schools. Exceptions to this authority include the business administrator and several other positions with whom the school committee has explicit authority to contract. The superintendent also has approval authority over employees hired by principals for specific schools. In addition, the superintendent has authority to "dismiss any employee of the school district," subject to procedural requirements and statutory limitations.

The school superintendent's authority to contract is also subject to adequate allocation of appropriations by the school committee and the educational

goals and policies established by the school committee. The superintendent is generally responsible for preparation of a proposed budget for the school committee to "review and approve." The position reports directly to the school committee which has the authority to remove the superintendent. As an officer authorized to appoint and employ school personnel, the superintendent must sign payrolls of employees with whom he/she has contracted or approved a contract.

School Business Manager (Administrator)

School business managers or administrators are now common in many Massachusetts school districts. Generally, these administrators work with the superintendent in the day-to-day administration of schools. Only a few statutes exist that refer to the position of school business manager or administrator. Basically, the law indicates that a business administrator may be hired pursuant to a special multi-year contract with special benefits. The law also requires that this position be filled by an individual with a certificate of competency in the field. Department of Education regulations outline the certification standards for school business administrators. These standards require that a school business manager "... understands fiscal management and budget administration ... understands financial management procedures, methods and techniques to create, revise and monitor the school budget ... understands principles and practices of effective accounting ... understands resource allocation and assets management ... understands municipal and school finance ..." 603 CMR 7.11(2) & 7.12(38)

In practice, the business administrator or manager performs functions related to the internal school budget. Such du-

ties include participation in the preparation of the annual school budget, monitoring expenditures from the school budget, making financial reports and having responsibility for preparation of the school payroll and purchasing procedures.

The business manager does not have certain authority granted by statute to the municipal accounting officer; e.g., the business manager has no statutory authority to disapprove bills or payrolls. However, one of the primary functions of the business manager is to monitor expenditures and advise the superintendent and school committee when expenditures are exceeding appropriations and other available funds (grants, gifts, revolving funds, etc.).

School Principals

As a result of the Education Reform Act of 1993, school principals now have expanded authority over certain expenditures within their respective schools. Principals have the authority to administer, manage and supervise the operation of their schools and school property, subject to the supervision and direction of the superintendent. They are responsible, consistent with personnel policies and budgetary restrictions and subject to the approval of the superintendent, for hiring personnel assigned to the school. Principals can also terminate such personnel subject to review and prior approval of the superintendent. Principals, subject to the direction of the superintendent and consistent with district policy, may purchase textbooks and other school supplies, apparatus, reference books and other means of instruction. These purchases must be accommodated within the school's allocated appropriations.

Legislative Body

Because the legislative body, i.e. town meeting or city council, has authority

over the community's total budget, they also have authority over the total dollar amount of the school department budget. The legislative body does not however, have authority over the specific line items with the exception of capital and transportation costs. It can also establish reasonable standards relating to the management of financial systems and practices through the enactment of ordinances or by-laws.

Chief Executive Officer(s)

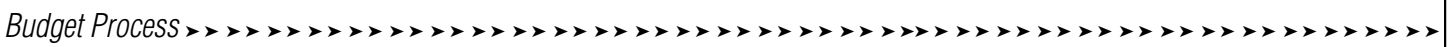
Generally speaking, the chief executive officers, namely boards of selectmen, mayors, city managers and town managers have limited authority over school departments. In cities, the mayor or city manager can recommend a lower budget than that requested by the school committee and limit the amount of the appropriation made to schools, subject to the minimum amounts required to be appropriated under Education Reform. No such authority is given to boards of selectmen or town managers under the general laws. However, unlike city managers, a board of selectmen can disapprove a warrant for payment of school expenses that are unlawful, fraudulent or excessive. Mayors and city managers do have the authority to approve certain school contracts for over \$5000 unless the contract involves purely educational expenses or the exclusive authority is specifically given to school officers. Lastly, the chief executive officer in both cities and towns is considered a member of the school committee for purposes of collective bargaining.

Accounting Officer

A community's accounting officer, usually a town accountant or city auditor, has an important role in monitoring departmental spending. The town accountant or city auditor has the power

continued on page six ➡

School Department Budget and Expenditure Process





Accountability in School Budgeting

➔ *continued from page three*

to inspect all school department bills and payrolls for validity and can disapprove payment if a payment is fraudulent, unlawful or excessive. Another duty of the accounting officer is to prepare the warrant for payment of all bills and payrolls. This official also has authority as auditor to examine the books and accounts of all officers entrusted with the receipt, custody or expenditure of school department funds. Furthermore, the accountant/auditor is required to keep a complete set of books including the amounts of each separate appropriation and the amounts and purposes of expenditures made from them. In addition, this officer must be familiar with and keep accounts in conformity with the classifications of the board of education used for school committees.

In particular, the accountant has the duty, whenever an appropriation has been expended, or whenever the liabilities incurred appear to be in excess of the unexpended (and unencumbered) balance, to immediately notify the school committee and other school officers authorized to make expenditures and to refuse payment until funds have been provided. The accounting officer is also required to notify the executive and legislative bodies.

One of the tools the accountant may use to determine whether liabilities incurred appear to be in excess of the remaining appropriation is to encumber the entire annual payroll and other funds for known executed contracts at the beginning of the fiscal year. As new contracts are executed during the year, funds should be encumbered accordingly. These amounts should remain encumbered until certification by the department head or person responsible for the expenditure that the liability

has been eliminated. Any official that makes or executes a contract on behalf of the school department should furnish the accountant or auditor with an original or copy of the contract within one week of its execution.

In addition to the accounting officer's day-to-day financial management responsibilities, this position has a critical role in formulating the annual budget. At the end of the calendar year, the school department provides the municipal accounting officer with an estimate of expenditures for the next fiscal year. The accountant is also entitled to receive detailed information from the schools on expenditures during the first four months of the then-current fiscal year and estimates for the last eight months.

Lastly, the accountant is required to provide the chief executive officer with a report showing the actual expenditures made for the first six months of the current fiscal year and the amounts estimated to be expended for the next six months. At the close of the calendar year, the accountant also reports the money received from estimated receipts applicable to pay expenditures in the first six months of the fiscal year and an estimate of the last six months of that year and for the next fiscal year.

Treasurer

A municipal treasurer is the cash manager of a town or city and is therefore responsible for the deposit, investment and disbursement of municipal funds. When the accountant authorizes school department expenditures, the treasurer issues checks for payment of bills. As custodian of all municipal funds, the treasurer also oversees school department appropriations, grants, gifts, and revolving funds.

Overspending Appropriations

In addition to outlining the specific fiscal responsibilities of local and school officials in overseeing school department expenditures, the general laws also explicitly state that municipal officials are criminally liable for knowingly incurring expenditures in excess of appropriations. All municipal officers may be fined or imprisoned for knowingly violating these provisions of the General Laws.

Conclusion

As this article clearly indicates, there are a number of municipal and school officials that are responsible for school department budgeting and expenditures. The guidelines described in this article are intended to assist officials in coordinating their community's school budget process and monitoring the expenditure of school department funds. Hopefully, both inexperienced and veteran school officials will use this article as a reference tool. As public officials entrusted with public funds, it is imperative that all public funds, including school department monies, be expended and monitored in a responsible fashion. ■

Statutory References:

School Committee: MGL Ch.71 Sec. 34,37 & 41, Ch.150E Sec.1, and Ch.41 Sec.41 & 56

School Superintendent: MGL Ch.71 Sec.34, 37, 42 & 59B

School Business Manager: MGL Ch.71 Sec.38G & 41

School Principal: MGL Ch.71 Sec.48 and 59B

Legislative Body: MGL Ch.40 Sec.5 and Ch.71 Sec.34

Chief Executive Officer: MGL Ch.44 Sec.32, Ch.41 Sec.52, Ch.150E Sec.1 and Ch.43 Sec.29

Accounting Officer: MGL Ch.41 Sec.3, 17, 50, 52,55, 56, 57, 58, 59 and 60; Ch.44 Sec.31, 31A & 53A; and Ch.39. Sec.1

Treasurer: MGL Ch.41 Sec.35, 41, 52, & 56 and Ch.44 Sec.53 & 53A

Criminal Liabilities: MGL Ch.44 Sec.62

DLS UPDATE

Executive Order 393 — Educational Management Accountability

The Education Reform Act of 1993 is providing significant funds to increase educational achievement and equalize spending for school children across the Commonwealth. Local and regional school districts have received nearly a \$1 billion in new state education money over the past five years and \$229 million in FY97 alone. In Executive Order 393 issued in February 1997, the Governor establishes clear guidelines for evaluating the program's progress and for holding educators accountable for achieving Education Reform goals. The order creates an Educational Management Accountability Board "to review, investigate and report on the expenditure of funds by school districts consistent with the goals of improving student achievement." Staffing the board will be a team of investigators under the direction of the Secretary of Administration and Finance.

Over the past year, parents, government officials and educators have expressed concern over how Education Reform funds are being spent by school districts. At the current time, the Board of Education is contemplating placing the school department of a large city into receivership for questionable spending practices. In 1996 the Division of Local Services issued a report disclosing that a southeastern Massachusetts school department had overspent the budget by \$2.6 million over a two-year period. Another city is currently undergoing an audit to determine the extent of its school department deficit. While some of these problems occur because of the frequent turnover of local officials who may not be fully aware of their responsibilities, questionable spending practices and overspending should not occur. (See "Accountability in School Budgeting," page 1.)

The aforementioned problems and the fact that any new program of this magnitude and importance should undergo an evaluation has led to Executive Order 393. Through investigations of selected school districts throughout the state, taxpayers will have a better understanding of performance of school districts. The investigations will be conducted by the Educational Management Accountability Board (EMAB). The EMAB will be comprised of seven to 11 unpaid members each serving for one-year renewable appointments. The Secretary of Administration and Finance will serve as the chief of staff for the board. Additional staff will be requested from the Departments of Revenue and Education and other executive offices or agencies as needed. The investigations will be conducted in consultation with the State Auditor and the Commissioner of Education. The Director of Accounts of the Division of Local Services will be the chief investigator. Under M.G.L. Ch.44, Secs. 45 and 46A, the Director of Accounts has broad authority to examine departmental accounts and transactions. The director may also require the production of documents and books.

As outlined in the Executive Order, the EMAB will:

- Develop the protocols for the review of the schools and school districts;
- Verify the accuracy of reports of schools and school districts filed with the Department of Education;
- Conduct a review and analysis of budgets of school districts to determine whether the districts are complying with state law;
- Conduct a review and analysis of school districts' spending to determine

whether the spending effectively supports the district's educational programs and the goals of the Education Reform Act; and

- Prepare and submit to the Governor and Lt. Governor a report of its findings for each school district investigated by the board. In addition, the board shall also prepare and submit an annual report of its investigations and findings.

While attention tends to focus on school districts that are having difficulties, the EMAB will seek examples of programs that are successful and can be emulated by other school districts. Reports by the board will provide the specific school districts being investigated with recommendations for improvement. These reports can be utilized by school districts seeking to improve their school department financial management and performance.

written by Marilyn H. Browne

Farewell to Kay M. Upham

City & Town and the Division of Local Services bid a fond farewell to Kay M. Upham who will be taking a position in the private sector. Although you have only seen Kay's name on *City & Town* articles since we instituted the byline policy last year, she has been a regular monthly contributor for over three and one-half years. In particular, she has been responsible for the majority of the Focus articles as well as many feature articles. We will miss her and her contributions to this newsletter. ■

Municipal Fiscal Calendar

April 1

Collector: Mail 2nd Half Semi-Annual Tax Bills

Job Opportunity

DOR's Division of Local Services (DLS) is seeking a program manager to write, review and edit DLS articles and publications on a variety of local government finance topics, including the monthly publication *City & Town*. This employee will also assist in the production of technical manuals and other training materials by working with DLS staff and local officials to ensure their accuracy and clarity. In addition, this program manager will oversee division-wide special projects and coordinate the work of other staff. Other job duties will include conducting research on state and federal programs and regulations as well as performing the qualitative research and quantitative analysis necessary to help the administration and legislature make policy decisions.

A minimum of four years experience is preferable and a bachelor's degree is required. Send cover letter, writing samples and resume to Marilyn H. Browne, Division of Local Services, P.O. Box 9655, Boston, MA 02114-9655, or fax to (617) 626-2330. ■

Director of Accounts Named

Revenue Commissioner Mitchell Adams announced the appointment of James R. Johnson to the position of Director of Accounts of the Division of Local Services. Jim Johnson has been an Assistant Director of Accounts since 1991. The Bureau of Accounts is responsible for setting tax rates for cities and towns, reviewing balance sheets and audits, approving certain borrowings, and other aspects of municipal finance.

As Assistant Director, Jim managed the municipal debt section and State House Note programs as well as administered the nearly \$150 million Sewer Rate Relief Fund. His responsibilities also included monitoring and developing strategies for municipalities overcoming serious financial difficulties.

Jim is a graduate of Brown University and has resided in Wellesley for the past 20 years. He has been involved in town affairs as an advisory committee member and chairman, and is a member of the representative town meeting. ■

Data Bank Highlight

Trends in School Share of General Fund Spending

Data on a local school district's share of general fund spending is available through a data bank comparative report that provides local officials with data on trends in school expenditures. The report shows school expenditures, total expenditures, Department of Education integrated operating costs, net average pupils and cost per pupil.

To obtain Municipal Data Bank information contact: John Sanguinet at (617) 626-2355 for printed reports and data files; Burt Lewis at (617) 626-2358 for the On-Line Access System; or use the World Wide Web address below.

City & Town



City & Town is published 11 times a year by the Massachusetts Department of Revenue's Division of Local Services (DLS) and is designed to address matters of interest to local officials. DLS offers numerous publications on municipal law and finance, available by calling (617) 626-2300, or through the DLS World Wide Web site at <http://www.state.ma.us/dls> or by writing to PO Box 9655, Boston, MA 02114-9655.

Marilyn H. Browne, Editor

9M 3/97 D697B04

CITY&TOWN

Division of Local Services
PO Box 9655
Boston, MA 02114-9655

Address Correction Requested

BULK RATE
U.S. POSTAGE
PAID
COMMONWEALTH OF
MASSACHUSETTS